HOUSING MARKET OUTLOOK
Trois-Rivières CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- Economic and demographic conditions will not support the residential real estate market.
- Market conditions will now favour buyers on the resale market.
- Existing home prices will register modest increases.
- Housing starts will fall.

Figure 1

Source: CMHC
f: CMHC forecasts

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 16, 2013.

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New home market: slowdown on the horizon

The downward trend in housing starts, which began in 2011, will continue. The sluggish job market and weaker migration will drive down demand for new homes. As well, buyers will have an ever broader selection of properties for sale to choose from, which will cause demand for new housing to decline further.

This decrease in demand will be observed in practically all market segments. Single-detached home construction will slow down, with expected decreases of 25 per cent in 2013 and 13 per cent in 2014. Smaller declines will be recorded in semi-detached and row housing starts. With the significant growth in home prices registered in recent years, such dwellings, which are more affordable than single-detached houses, continue to meet the needs of many buyers. In all, foundations should be laid for 180 semi-detached and row homes in 2013 (7 per cent) and 175, in 2014 (-3 per cent). The rental housing segment, for its part, will see considerable activity in 2013 (+29 per cent), despite a higher percentage of vacant units. This additional supply will cause the rental market to ease and, consequently, rental housing production will slow down in 2014, as 200 such starts should be enumerated (-45 per cent). Lastly, after a very strong year in 2012, condominium construction will moderate. There should be 75 starts of this type in 2013 (compared to 219 in 2012) and 50, in 2014.

In all, 850 starts should be registered in the Trois-Rivières area in 2013 (17 per cent) and 625, in 2014 (27 per cent). The drop anticipated for 2014 will be mainly due to the significant decline forecast in the rental housing segment.

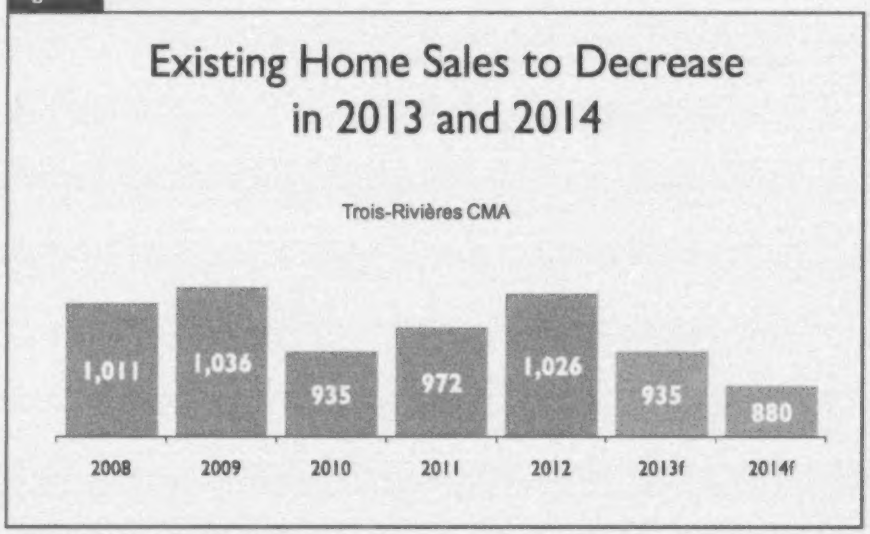
Existing home market: conditions will now favour buyers

After posting a relatively vigorous year in 2012, existing home sales will slow down. Since the second quarter of 2013, sales have been following a downward trend. A less favourable demographic environment, along with the weak job market and somewhat less attractive financing conditions, will bring down the level of Centris® sales. The cumulative effect of several years of decreases in employment in the area will be felt, as a total of 935 residential properties should change hands in 2013 (-9 per cent) and 880, in 2014 (-6 per cent).

On the supply side, the upward trend will continue. It should be recalled that the supply of properties for sale has risen rapidly in recent years, with the number of listings having practically doubled since 2009. This considerable increase in supply has caused the market to soften. While the market favoured sellers in 2010, conditions progressively eased and have become balanced[1]. Under the combined effect of the anticipated decrease in sales and the growth in listings, conditions will ease further. In 2014, buyers will then have the edge in the negotiation process.

This softening of the market will lessen the upward pressure on prices. The average price of existing homes will therefore reach $161,500 in 2013 (+4.5 per cent) and then $164,500 in 2014 (+1.9 per cent). Reflecting these less tight conditions, listing periods

Figure 2



Source: QFREB by the Centris® System
f: CMHC forecasts

[1] The balanced range for the seller-to-buyer ratio is between 8 and 10 to 1, indicating a market where neither buyers nor sellers are favoured.

have grown longer and will continue to do so. Already, it takes more than 110 days to sell a residential property (or 30 more than in 2010).

Rental market: easing will continue

The easing of the rental market that began in 2010 will continue in the CMA. The more difficult job market situation and weaker migration will adversely affect housing demand. On the supply side, after slowing down in 2012, rental housing production has picked up considerably in 2013. This increase in activity, although short-lived, will inflate the inventory of new units for months to come. In fact, many of the housing units started this year will only be completed in 2014. This additional supply of new dwellings, along with the slowdown in demand, will cause the rental market to ease further, and the vacancy rate should reach 5.8 per cent in 2013 and 6.5 per cent in 2014.

These softer conditions will lessen the upward pressure on rents, which will lead to smaller increases. The average rent for two-bedroom apartments will therefore reach $560 in 2013 and $565 in 2014.

Economic trends: employment and migration will not support housing demand

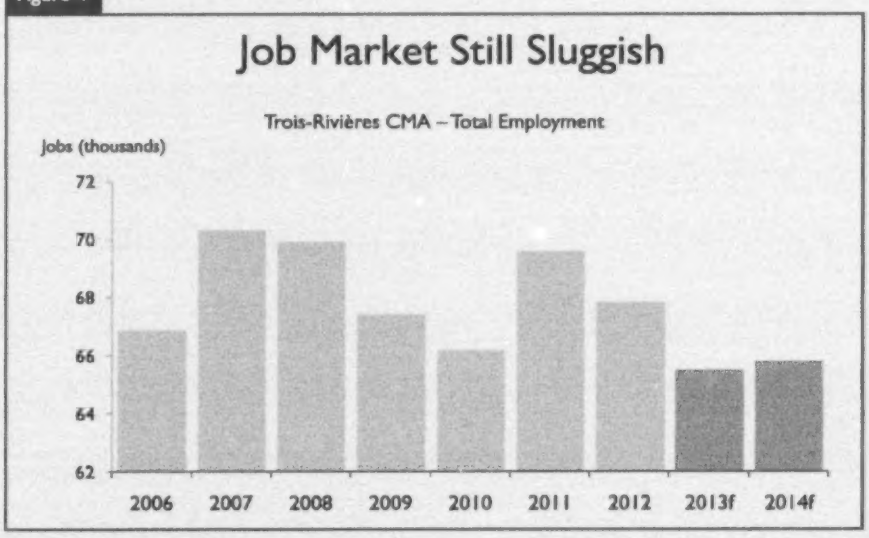
The job market situation, which has been sluggish for several years, will remain difficult in the area Trois-Rivières census metropolitan area (CMA). The area was hard hit by the 2008 global economic slowdown and is still having trouble picking itself up. The negative impact of a strong Canadian dollar, combined with the timid economic recovery in the United States (Canada's largest trading partner), is still undermining the competitiveness of Trois-Rivières area manufacturing companies. In addition, the area will have to contend with significant layoffs in the nuclear energy sector, which will take place over several years. The Trois-Rivières area will however benefit from the diversification fund ($200 million) created in response to these layoffs, which could help support the regional economy.

In sum, the economic environment will not be favourable to the residential real estate market in the Trois-Rivières area in 2013 and 2014.

Figure 3

Source and forecasts: CMHC
* Rental housing units for seniors were withdrawn from the survey universe.

Figure 4



Source: Statistics Canada
f: CMHC forecasts

Negative employment results will be recorded in 2013 (-1.8 per cent), and weak growth is expected for 2014 (+0.6 per cent).

An important driver of housing demand in recent years, migration will slow down slightly in the Trois-Rivières area. The more difficult economic environment will make the area less appealing. As a result, the international component—which accounts for nearly half of the net migration—will be less significant than in past years. Immigrants will prefer to settle in an area where the job market is stronger.

Mortgage rates to see modest and gradual increases late in the forecast horizon but will remain low by historical standards

Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates.[2]

CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013 but, thereafter, follow the same interest rate path as before. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.

Mortgage rates are expected to increase gradually and steadily over the forecast horizon. By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

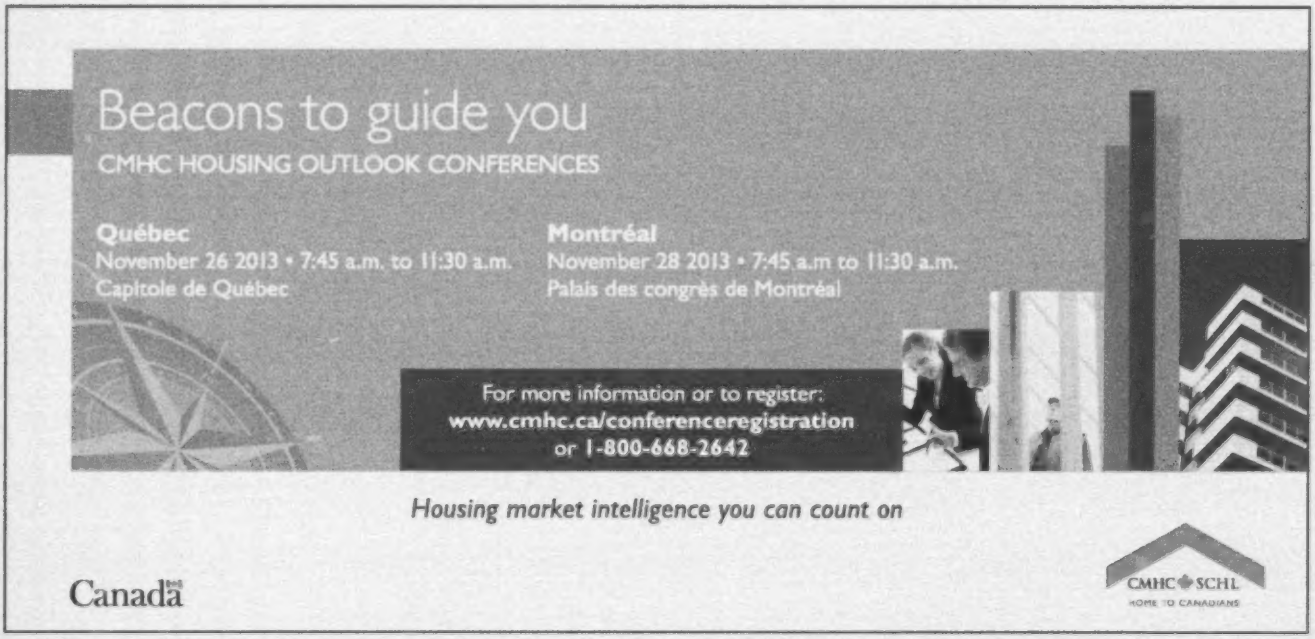
[2] "Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting" Federal Reserve Bank of New York (2013). Richard Crump, Stefano Eusepi, and Emanuel Moench (http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html)

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	The labour market environment will remain difficult in the Mauricie region. Like in 2012, employment is expected to decrease in 2013 (-1.8 per cent) and then grow modestly in 2014 (+0.6 per cent).
Income	Average weekly earnings have increased at a rate below inflation in 2013 in the Trois-Rivières CMA. Net income growth has therefore been practically nil, which has limited housing demand.
Population	While migration will remain strong in the CMA, net migration levels are expected to be slightly lower, which will be less supportive of the residential real estate market.
Resale Market	Under the combined effect of the anticipated decrease in sales and increase in supply, market conditions will continue to ease. In 2014, the market will become favourable to buyers, limiting housing starts.

Forecasts risks

- If the economic recovery in the United States were to be less robust than expected, this would affect the local economy. The negative impact on exports could lead to a significant decrease in employment, which would further bring down housing demand.
- A greater increase in the number of properties for sale on the market could cause market conditions to ease much more significantly.
- Higher migration would stimulate demand for housing, particularly rental dwellings.
- Stronger demand for rental housing would limit the easing of the rental market.



Forecast Summary Trois-Rivières CMA Fall 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	345	335	305	230	-24.6	200	-13.0
Multiples	1,346	779	716	620	-13.4	425	-31.5
Starts - Total	1,691	1,114	1,021	850	-16.7	625	-26.5
Average Price ($):							
Single-Detached	209,570	218,822	215,261	214,000	-0.6	216,000	0.9
Resale Market[1]							
Centris® Sales	958	991	1,026	935	-8.9	880	-5.9
Centris® New Listings	1,663	1,782	1,767	1,800	1.9	1,850	2.8
Centris® Active Listings	532	679	727	825	13.5	975	18.2
Centris® Average Price ($)	150,611	156,197	154,558	161,500	4.5	164,500	1.9
Rental Market[2]							
October Vacancy Rate (%)	3.9	3.9	5.2	5.8	_	6.5	_
Two-bedroom Average Rent (October) ($)	533	547	550	560	_	565	_
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3,00 - 3,50	-	3,25 - 3,75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5,00 - 5,50	-	5,25 - 6,00	-
Annual Employment Level	66,200	69,600	67,800	66,600	-1.8	67,000	0.6
Employment Growth (%)	-1.8	5.1	-2.6	-1.3	-	0.9	-
Unemployment rate (%)	9.1	8.7	7.9	9.0	-	8.8	-
Net Migration	984	912	922	860	-6.7	830	-3.5

[1]The Centris® system contains all the listings of Québec real estate brokers.

[2]Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2013-2014)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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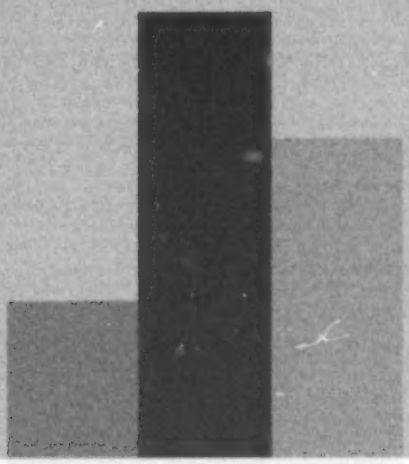

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